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PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2012 BUDGET

Budget Overview

On February 14, 2011, President Obama released his proposed $3.73 trillion budget for Federal Fiscal Year (FFY) 2012, which will begin on October 1, 2011. As estimated by the Office of Management and Budget (OMB), the Federal budget deficit would drop from $1.645 trillion in FFY 2011 to $1.101 trillion in FFY 2012. The President's budget proposals would reduce the budget deficit by an estimated $1.1 trillion below current law over the next ten years, including a net reduction of $400.0 billion by freezing overall non-security discretionary spending over the next five years. However, significant net reductions are not proposed for entitlement (mandatory) spending, which accounts for well over half of total Federal expenditures, compared to less than one-sixth of total Federal expenditures for non-security discretionary spending.

Mandatory spending, such as Medicaid, Title IV-E Foster Care and Adoption Assistance, Temporary Assistance for Needy Families (TANF), and Child Support Enforcement, combined accounted for over three-fourths of total Federal aid to State and local governments in FFY 2010. State and local governments alone receive over twice as much Medicaid revenue as the total combined amount received through discretionary programs, which are funded through annual appropriations bills. Mandatory programs represent an even higher percentage of total Federal revenue received by the County, and are even more important because they also require the

State to either provide matching funds or include maintenance-of-effort requirements which limit the ability of the State to reduce State funding received by the County.

The net overall fiscal impact on the County of the President's proposed FFY 2012 Budget, therefore, would be relatively small because it does not include major net reductions in mandatory spending, such as Medicaid and TANF. However, as discussed in greater detail in this memorandum, there are budget proposals which would have a significant impact on a number of County-administered programs.

It is not possible to compare the President's proposed FFY 2012 funding levels with current year funding levels because none of the 12 FFY 2011 appropriations bills have been enacted. Instead, Federal programs and activities have been temporarily funded under a Continuing Resolution (CR), which expires on March 4, 2011. Moreover, the House Republican leadership is pursuing an overall reduction in FFY 2011 discretionary spending which would be roughly $100.0 billion less than the amount requested by the President (or $61.0 billion below the FFY 2010 level). The initial budget debate this year, therefore, will be over FFY 2011 appropriations. Congress also will need to address the issue of raising the current $14.3 trillion Federal debt ceiling which will be reached later this spring before considering the FFY 2012 budget. Congressional Republicans, especially its newly elected members, clearly support far less Federal spending than the President.

Below is a discussion of major budget proposals of County interest.

Proposed Program Terminations

The President is proposing to eliminate numerous programs, most of which are small categorical grant programs or programs used to fund Congressional earmarks, such as Byrne Discretionary Grants in the Department of Justice, and the Economic Development Initiative in the Department of Housing and Urban Development (HUD). The proposal to eliminate funding for Congressional earmarks is certain to be approved by Congress as there is strong bipartisan support in both houses to not earmark any appropriations in FFYs 2011 and 2012. While elimination of these earmarked programs will negatively impact County residents, the overall impact is less severe than reductions to formula grant programs would be. This is because less populous states receive a disproportionately high percentage of earmarked funds, reflecting their overrepresentation in the Senate, relative to population size (note: California's population exceeds the total combined population of the 21 least populous states).

The proposed elimination of the $31.0 million Southwest Border Prosecution Initiative (SWBPI), which reimburses state and local governments for their prosecution and detention costs for qualifying federally-initiated and declined-referred criminal cases, is the only proposed termination, which would significantly affect the County. The annual amount of SWBPI can vary significantly from year to year, ranging from a low of $932,500 to a high of nearly $8.78 million. The County's most recent seven annual SWBPI payments have averaged more than $3.0 million, according to the Department of Justice.

The Administration also proposes to eliminate the production of C-17 transport/cargo aircraft, which would hurt employment and economic activity associated with C-17 production in the County. In FFY 2010, Congress appropriated $2.5 billion for C-17 production.

Proposed Funding Reductions

Medicaid Disproportionate Share Hospital (DSH) Funding: Under the Federal health care reform law, the Affordable Care Act (ACA), annual Medicaid DSH allotments to states were reduced for FFYs 2014 through 2020. The President proposes to extend the $4.17 billion Medicaid DSH reduction for an additional year through FFY 2021. Under current law, Medicaid DSH allotments, otherwise, would revert back to pre-ACA levels, beginning in FFY 2021. The fiscal impact of this proposal on the County will depend, in part, on the extent to which health care reform ultimately reduces the County's and other California DSH hospitals' uncompensated care costs in FFY 2021.

Medicaid Provider Taxes: The proposed budget would limit the ability of states to use provider taxes to finance the non-Federal share of Medicaid costs by reducing the Medicaid provider tax threshold from 6 percent of a provider's total revenue in FFY 2014 to 4.5 percent in FFY 2015, 4 percent in FFY 2016, and 3.5 percent in subsequent years.

State Criminal Alien Assistance Program (SCAAP): The proposed budget would reduce SCAAP funding from $330.0 million in FFY 2010 to $136.0 million in FFY 2012. It also would eliminate the 80 percent credit received by counties and 65 percent credit received by states for inmates of unknown immigration status in the calculation of SCAAP payments, which are based on a match of records of foreign-born inmates against Federal immigration data bases. The County had urged that this partial credit be provided because the Federal government does not screen the immigration status of most state and local inmates and because identifying information on all legal immigrants, but not many undocumented immigrants, are included in Federal immigration data bases. Therefore, inmates of unknown immigration status are far more likely to be unlawfully than lawfully in the country – especially in county jails where far more foreign-born inmates are released without being screened by Federal immigration agents.

The County would receive a SCAAP payment of only $5.9 million in FFY 2012, assuming that the County's percentage share of total SCAAP funding will be the same in FFY 2012 as in FFY 2010. In comparison, the County received a SCAAP payment of $14.3 million in FFY 2010 and an all-time high payment of $34.0 million in FFY 2002.

Community Development Block Grant (CDBG) Formula Grants: The proposed budget would reduce CDBG funding by $300.0 million, from $3.98 billion in FFY 2010 to $3.68 billion in FFY 2012. According to the Community Development Commission (CDC), the proposed reduction would result in an estimated $2.41 million loss in CDBG funds to the County. In FFY 2010, the County received $32.2 million in funding.

The Administration believes that the formula to distribute CDBG funds is outdated and does not target the most economically distressed communities, and also that the flexibility of the program makes it difficult to measure outcomes. However, the Administration did not indicate if they plan to offer legislation to include a change in the CDBG formula or to amend the CDBG statute to establish more rigorous performance measures.

Public Housing Operating Fund: The proposed budget would reduce funding for the Public Operating Fund by 17 percent, from $4.76 billion in FFY 2010 to $3.96 billion in FFY 2012. Based on available information at this time, CDC estimates that the proposed reduction would result in at least a $1.0 million loss to the County based on its FFY 2010 funding of $7.02 million.

Community Services Block Grant (CSBG): The proposed budget would reduce CSBG by 50 percent from $700.0 million in FFY 2010 to $350.0 million in FFY 2012. The Administration proposes to target the $350.0 million in funding to the highest performing Community Action Agencies through a competitive grant process. Based on the County's percentage share of total FFY 2010 CSBG funding, the County's CSBG formula grant funding would drop by $3.63 million in FFY 2012.

Senior Community Service Employment Program (Title V): The proposed budget would reduce Title V funding from $825.0 million in FFY 2010 to $450.0 million in FFY 2012. The County would lose an estimated $1.3 million in Title V funds as a result of the proposed reduction. The Administration also proposes to transfer the program from the Department of Labor to the Administration on Aging in the Department of Health and Human Services to improve the program's coordination with other programs supporting low-income seniors.

Workforce Investment Act (WIA) Formula Grants: The proposed FFY 2012 budget would reduce WIA formula grants for Youth by $74.1 million, Adults by $69.8 million and Dislocated Workers by $103.2 million below their FFY 2010 funding levels. These proposed cuts will result in an estimated loss to the County of $2.7 million.

In addition, the budget proposes a total of $380.0 million for the Innovation Fund, an initiative to encourage new approaches to job training, which would be jointly administered by the Departments of Labor and Education. This initiative would be financed by reductions in WIA formula grants, Employment Service Grants to states, and Department of Education funding.

Public Health Emergency Preparedness (PHEP) Grants: The proposed budget would reduce funding for PHEP Grants from $698.3 million in FFY 2010 to $643.4 million in FFY 2012. The County, which is one of only four local jurisdictions that receives direct PHEP formula grants, would receive $20.6 million in FFY 2012, down from $21.2 million in FFY 2010.

Hospital Preparedness Program: Funding for Hospital Preparedness Program (HPP) grants would be reduced from $394.3 million in FFY 2010 to $353.4 million in FFY 2012. Funding for the County, which is one of only four local jurisdictions that receives direct HPP formula grants, would drop from $12.43 million in FFY 2010 to $11.06 million in FFY 2012.

Army Corps of Engineers: The proposed budget would reduce overall Army Corps of Engineers ("Corps") civil works funding to $4.6 billion in FFY 2012 ($913.0 million below the FFY 2010 level). However, the Administration's budget request for Corps civil works projects includes $3.17 million for Marina del Rey dredging in FFY 2012, $5.083 million for maintenance of the Los Angeles County Drainage Area, $900,000 for the California Coastal Sediment Master Plan, and $80,000 for the Los Angeles County Dredged Material Management Plan. The budget requests for these projects in the County are important because Congress no longer will be earmarking funds for individual projects.

Proposed Funding Increases

Surface Transportation Program Reauthorization: The proposed budget calls for $556.0 billion over six years to reauthorize surface transportation programs, an increase of over 60 percent above the inflation-adjusted levels in the previous surface transportation reauthorization law, known as SAFETEA-LU. Included in this request is an additional $50.0 billion in "up front" spending to jump start transportation projects which were proposed by the President last year under his infrastructure initiative. The

President's proposal does not specify how the increased level of funding will be financed.

The President's surface transportation reauthorization proposal would replace more than 55 SAFETEA-LU highway programs with five core programs that invest in the roads most critical to the national interest. This consolidation would increase the percentage of total funding that would be allocated through formula grants. The impact on California and the County would depend on the allocation formulas used in the reauthorization legislation.

The Administration proposes to expand the Highway Trust Fund, which currently funds highway and transit projects, into a new Transportation Trust Fund, which also funds intercity passenger rail and a new National Infrastructure Bank ("I-Bank"). The proposed budget includes $53.0 billion over six years for intercity passenger rail improvements, including high-speed rail projects, and $30.0 billion over six years for the new I-Bank to invest in projects of regional or national significance. The I-Bank, which would be housed in the Department of Transportation, seeks to leverage Federal and private investments in large-scale infrastructure projects, which are of regional or national significance to the economy.

The President proposes to subject surface transportation spending to "pay-as-you go" budget rules for the first time to ensure that spending and revenue levels are brought into line. However, the Administration's proposed $556.0 billion spending level is more than double the projected fuel tax revenue which would be deposited into the Transportation Trust Fund, which is insufficient to finance existing highway and transit needs, let alone additional intercity passenger rail and the new I-Bank funding. The issue of whether and how to raise revenues to finance surface transportation programs is the biggest hurdle to the enactment of a multi-year reauthorization bill.

Child Welfare Financing: The proposed budget includes $2.5 billion over 10 years to support a child welfare reform proposal to help prevent abuse and keep children safely in homes and out of long-term foster care placements. The Administration has not yet released a detailed description of this proposal though, in budget briefings, Department of Health and Human Services officials indicated that the funds would be awarded on a competitive grant basis.

Child Care and Development Block Grants (CCDBG): The budget proposes to increase discretionary CCDBG funding by $800.0 million, from $2.12 billion in FFY 2010 to $2.92 billion in FFY 2012 and increase mandatory CCDBG funding by $500.0 million to $3.4 billion in FFY 2012. Under current law, mandatory, but not discretionary, CCDBG funding requires a state match. The proposed budget would increase

California's discretionary grant by an estimated $84.1 million and its mandatory grant by $61.0 million in FFY 2012 above their respective FFY 2010 levels.

Early Learning Challenge Fund: The proposed budget includes $350.0 million for the Early Learning Challenge Fund, which was established under the Federal health care reform law. Under this proposal, competitive grants would be provided to states to promote early learning and school readiness programs for children from birth to age 5.

Administration of Aging Caregiver Initiative: The budget proposes $96.0 million for the Caregiver Initiative, which would provide new resources to support the network of agencies in local communities currently providing caregiver services. A similar initiative was proposed in the FFY 2011 budget.

Urban Area Security Initiative (UASI) Grants: The proposed budget would increase funding for the UASI Grants from $868 million in FFY 2010 to $920.0 million in FFY 2012. The percentage of total UASI funding received by the Los Angeles urban area varies from year to year. Our urban area would receive nearly $4.4 million in increased UASI funding in FFY 2012, based on our percentage share of total FFY 2010 funding.

Other Proposals of County Interest

Build America Bonds: The Administration is proposing to make the Build America Bond (BAB) Program permanent at a reduced subsidy level designed to be approximately revenue neutral in comparison to Federal tax losses from traditional tax-exempt municipal bonds. Under the American Recovery and Reinvestment Act (ARRA), BABs provided a tax credit (subsidy) of 35 percent. The Administration also proposes to expand the allowable uses of BABs beyond investments in governmental capital projects, which were allowed under the ARRA. The impact of this proposal cannot be determined at this time because the Administration has not indicated what the reduced subsidy level would be for BABs.

We will continue to keep you advised.

WTF:RA
MR:MT:OR:sb

c: All Department Heads
Legislative Strategist